

Fiscal Services Division

Legislative Services Agency

Fiscal Note

SF 2296 - Tax Policy Administration (LSB 6923 SV)

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Fiscal Note Version - New

Description

Senate File 2296 makes several substantive and technical changes to Iowa tax administration law. Changes with potential significant fiscal impact include:

- Coupling with 2003 federal tax law changes related to the Research Activities Credit.
- Expanding the sales and use tax exemption for mold making and sand handling equipment to include replacement parts, installation and electricity costs.
- Exempting certain methods of manufacturer discounts from State and local sales and use taxes. This change is retroactive to January 1, 1997, and refunds are allowed with a maximum of \$25,000.

Assumptions

1. Expanding the mold making sales and use tax exemption will exempt \$4.0 million in foundry purchases from the sales and use tax and the local option sales tax.
2. Audits by the Department of Revenue in the next 18 months will result in the assessment of \$5.0 million in unpaid State and local sales tax related to the sale of cigarettes where the tax was collected and remitted based on an improper tax calculation.
3. The Department will prevail in the tax assessments, either by voluntary payment, settlement agreements, or court action. Actual tax collection will occur in FY 2006 and FY 2007.
4. Regardless of the law change, the industry discounting practice will change to eliminate the sales tax collection issue in the future.

Fiscal Impact

Coupling with 2003 federal tax law changes related to the Research Activities Credit will not significantly impact General Fund tax revenues.

Expanding the mold making sales and use tax exemption will reduce General Fund sales and use tax revenues by \$200,000 per year, beginning FY 2005. Local option sales tax receipts will decrease \$40,000 per year.

Exempting certain methods of manufacturer discounts from State and local sales and use taxes will reduce net General Fund revenue by \$2.1 million and local option sales tax receipts by \$420,000 in FY 2006 and FY 2007.

Sources

Department of Revenue
Metal Casting Institute – University of Northern Iowa

Dennis C Prouty

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
